

AR43

annual report

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DOMTAR

Dominion Tar & Chemical Company, Limited

Directors and Officers

Directors

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| deGaspé Beaubien, C.B.E., <i>Montreal</i> | *W. N. Hall, <i>Montreal</i> |
| T. N. Beaupré, <i>Vancouver</i> | R. D. Harkness, D.S.O., M.C., <i>Montreal</i> |
| George W. Bourke, <i>Montreal</i> | W. H. Howard, C.B.E., Q.C., <i>Montreal</i> |
| *C. Gordon Cockshutt, <i>Brantford</i> | J. G. Kirkpatrick, Q.C., <i>Montreal</i> |
| Ralph W. Cooper, <i>Hamilton</i> | Roger Létourneau, Q.C., LL.D., <i>Quebec</i> |
| *H. Roy Crabtree, <i>Montreal</i> | *John A. McDougald, <i>Toronto</i> |
| Shirley G. Dixon, Q.C., <i>Montreal</i> | *Maxwell C. G. Meighen, O.B.E., <i>Toronto</i> |
| George H. Dobbie, <i>Galt</i> | Nathan Pitcairn, <i>Jenkintown, Pa.</i> |
| Raymond Dupuis, Q.C., <i>Montreal</i> | *Arthur Ross, <i>New York</i> |
| J. E. L. Duquet, Q.C., <i>Montreal</i> | *J. N. Swinden, <i>Toronto</i> |
| Hon. Geo. B. Foster, Q.C., <i>Montreal</i> | *E. P. Taylor, C.M.G., <i>Bahama Islands</i> |
| *P. M. Fox, <i>Montreal</i> | N. A. Timmins, Jr., <i>Bahama Islands</i> |
| C. L. Gundy, <i>Toronto</i> | *Colin W. Webster, <i>Montreal</i> |
| Roger T. Hager, <i>Vancouver</i> | |
| *Members of the Executive Committee, E. P. Taylor, C.M.G., <i>Chairman</i> | |

Officers

- | | |
|--|--|
| E. P. Taylor, C.M.G., <i>Chairman of the Board</i> | R. E. Kirbyson, <i>Vice-President</i> |
| W. N. Hall, <i>President</i> | W. H. Palm, <i>Vice-President</i> |
| R. M. Collins, <i>Senior Vice-President</i> | W. R. Spence, <i>Vice-President</i> |
| H. E. Mason, <i>Senior Vice-President</i> | S. A. Kerr, C.A., F.C.I.S., <i>Secretary and Treasurer</i> |
| E. A. Thompson, <i>Senior Vice-President</i> | W. J. Strain, <i>Comptroller</i> |
| W. E. Adkins, <i>Vice-President</i> | E. G. Aust, C.A., <i>Assistant Treasurer</i> |
| C. M. Fellows, <i>Vice-President</i> | |

Head Office

Twenty-second floor, Sun Life Building, Montreal 2, Quebec.

Transfer Agents

for preference and common shares:

Montreal Trust Company — Halifax, N.S.;
Saint John, N.B.; Montreal, Que.; Toronto,
Ont.; Winnipeg, Man.; Vancouver, B.C.

for common shares only:

Empire Trust Company, New York, N.Y.

Registrars

for preference and common shares:

The Royal Trust Company — Halifax, N.S.;
Saint John, N.B.; Montreal, Que.; Toronto,
Ont.; Winnipeg, Man.; Vancouver, B.C.

for common shares only:

Empire Trust Company, New York, N.Y.

To Shareholders and Employees

Agreement on a common statement of objectives at DOMTAR's third Labour-Management meeting in November 1964 constitutes outstanding progress in labour-management cooperation. Published below is this significant document agreed to in principle by senior union and company officials.

Statement of Objectives

- A) To attain an economically sound, competitive and profitable operation which will make possible:*
 - 1. The satisfaction of consumer needs with quality products and services;*
 - 2. Improved wages and salaries and other conditions of employment; and*
 - 3. Improved returns to shareholders.*
- B) To increase job satisfaction through measures such as:*
 - 1. Full recognition by all concerned of the rights and dignity of employees;*
 - 2. Opportunities for employees to confer with Management through their representatives on matters of policy and proposed policy changes which affect employees, including matters beyond those covered in the applicable collective agreement; and*
 - 3. The development of informed interest and meaningful participation by employees in the success of the enterprise.*
- C) Over and above the foregoing objectives, to recognize the promotion of the national interest and the growth of the Canadian economy as an overriding obligation.*

Union groups represented by senior officials at the meetings included:

Canadian Labour Congress; Confederation of National Trade Unions; International Brotherhood of Pulp, Sulphite and Paper Mill Workers; International Chemical Workers' Union; International Union of Operating Engineers; International Union, United Automobile, Aerospace and Agricultural Implement Workers of America; International Woodworkers of America; National Federation of Pulp and Paper Workers; Oil, Chemical and Atomic Workers' International Union; L'Union Catholique des Cultivateurs; United Brotherhood of Carpenters and Joiners of America; United Cement, Lime & Gypsum Workers' International Union; United Glass and Ceramic Workers of North America; International Union of District 50 — United Mineworkers of America; United Papermakers and Paperworkers; and United Steelworkers of America.

Union and Management are in the process of conducting joint regional meetings across the country to discuss and explain the statement of objectives and other specific details with local union representatives and management personnel.

W. N. HALL
President

January 26, 1965.

Highlights

	1964	1963
Sales.....	\$385,957,920	\$352,657,325
Income Taxes — Current.....	\$ 11,475,000	\$ 10,503,000
— Deferred.....	\$ 5,878,781	—
Profit.....	\$ 24,963,225	\$ 20,832,234
Common Shares Outstanding.....	14,621,715	14,562,200
Earnings per Common Share.....	\$ 1.69	\$ 1.41
Dividends per Common Share.....	\$.80	\$.80
Working Capital.....	\$119,265,515	\$ 96,700,028
Cash Flow — Total.....	\$ 51,342,006	\$ 40,582,234
— Per Common Share.....	\$ 3.49	\$ 2.77
Net Additions to Properties.....	\$ 28,887,728	\$ 19,379,166
Book Value per Common Share.....	\$ 14.72	\$ 13.85
Number of Preference Shareholders.....	1,569	1,604
Number of Common Shareholders.....	39,820	39,906
Number of Employees — Average, exclusive of woods workers.....	18,084	17,831
Wages and Salaries.....	\$ 94,876,335	\$ 90,521,388

Report OF THE DIRECTORS TO THE SHAREHOLDERS

The consolidated financial statements of your Company and its subsidiaries for the year ended December 31, 1964 and the Auditors' Report thereon are submitted herewith.

Sales Our consolidated sales for 1964 totalled \$385,957,920, an increase of \$33,300,595 or 9.4% over 1963. All segments shared in the improvement and the following table provides a concise analysis of the sales distribution and percentage increase in each major category.

	<i>1964</i> <i>(in thousands)</i>	<i>%</i>	<i>1963</i> <i>(in thousands)</i>	<i>%</i>	<i>Increase</i> <i>%</i>
Pulp and Paper	\$240,482	62.3	\$220,273	62.5	9.2
Chemicals	63,909	16.5	58,725	16.6	8.8
Construction Materials	81,567	21.2	73,659	20.9	10.7
	<u>\$385,958</u>	<u>100.0</u>	<u>\$352,657</u>	<u>100.0</u>	<u>9.4</u>

Operating Profit At \$68,971,203, operating profit was \$11,568,040 higher than in the previous year, an improvement of 20.1%. The margin of operating profit to sales rose from 16.3% to 17.9% reflecting greater utilization of facilities and cost savings. In 1964, Pulp and Paper products produced 62.2% of the operating profit and all other activities 37.8%. In 1963 the corresponding figures were 64.8% and 35.2%. Ratios of operating profit to sales increased for both groups but increased a somewhat greater amount for Chemicals and Construction Materials than Pulp and Paper.

Investment and sundry income at \$2,088,949 was \$880,161 higher than in 1963, mainly due to the interest derived from the investment of surplus funds in short term securities.

Charges Against Income Interest on funded debt amounted to \$6,458,621, an increase of \$582,651. The increase was due to the interest on the \$20,000,000 of debentures sold in April 1964, partly offset by sinking fund purchases.

Depreciation and depletion totalling \$20,500,000 has been provided, an increase of \$750,000 over the amount set up in 1963.

Report OF THE DIRECTORS TO THE SHAREHOLDERS

Taxes on Income

Since 1959 we have followed the practice of providing for income taxes on the basis of claiming maximum capital cost allowances permitted under tax legislation, which allowances exceeded the depreciation provided for in the accounts. The reduction in total taxes as a result of this practice has been reported in a note to the financial statements.

The Federal and Provincial Governments have now instituted tax incentive legislation which, in some areas and under certain conditions, permits accelerated capital cost allowances greater than the normal maximums referred to in the previous paragraph. We have taken advantage of this new legislation in 1964 and have provided for deferred income taxes on the excess of available accelerated capital cost allowances over the established normal capital cost allowances. This provision can be drawn on in the event that the capital cost allowances available for income taxes in future years are less than the depreciation provided for in the accounts.

Provision of \$17,353,781 has been made for taxes on income. This is made up of \$11,475,000 payable with respect to 1964 profits, an increase of \$972,000 over 1963, and \$5,878,781 for deferred income taxes.

Net Profit

After deducting \$1,784,525 to cover the share of the profits of subsidiary companies belonging to minority shareholders in those subsidiaries, the net profit for the year amounted to \$24,963,225, equal to \$1.69 per common share after provision for the dividends on the preference shares. This compares with \$20,832,234 and \$1.41 per share in 1963. The increase is 20%.

Working Capital

Net working capital at the end of the year amounted to \$119,265,515, an increase of \$22,565,487. A major part of the increase resulted from the sale of additional debentures of the Company. The ratio of current assets to current liabilities was 3.9:1 compared with 3.7:1 a year ago.

Funded Debt

The consolidated funded debt totalled \$120,276,000 at the year end compared with \$107,131,000 in 1963. Requirements in 1965 for sinking funds and maturing debt, after deducting bonds and debentures already acquired, amount to \$4,471,000.

Report OF THE DIRECTORS TO THE SHAREHOLDERS

Expansion and Modernization Program

During 1964 your directors approved a major program of expansion.

The largest individual item is the construction of a new bleached kraft pulp mill at a new townsite at Lac Quévillon, approximately 50 miles north of Senneville in Northern Quebec. This mill will have a rated capacity of 750 tons per day but is expected to produce 850 tons when broken in. Site clearance commenced in the fall of 1964 and production is expected early in 1967.

At Cornwall, Ont., the installation of a new fine paper machine with annual capacity of 69,000 tons was authorized. Work was started in mid-1964 and production is anticipated by early 1966.

The modernization of the present mill at Windsor, Que., and its conversion from the production of largely unbleached kraft pulp in both softwood and hardwood grades to producing substantially only bleached hardwood kraft pulp was approved and the work is now proceeding. The estimated date of completion is late in 1965.

The major expansion of the pulp and linerboard facilities of the Red Rock, Ont., mill, authorized by your Board in 1963 is progressing well and is expected to be completed in the third quarter of 1965.

In addition to major items like the foregoing there are always many small and medium sized projects in progress and it is in this category that most appropriations covering improved efficiency and productivity fall.

Net expenditures on new plant and equipment in 1964 were \$28,887,728, compared with \$19,379,166 in 1963.

At the end of the year the unexpended balance of capital expenditures approved by your Directors totalled about \$90,000,000.

Organization

This is the third complete year of operations since the re-arrangement of our organization into operating companies each bearing a DOMTAR name. The decision to produce and market our diversified product lines under separately identified DOMTAR units, each operating in a specific field, has proven well founded. The managements of these companies have dealt effectively with the many problems that have arisen and this is reflected in the substantial growth in sales and the even more substantial growth in profits in the year under review.

The control of costs demonstrated in 1964 in all sections of the company by junior and senior staff and by line and staff departments was notable. This is exemplified by the fact that sales in 1964 increased over 1963 by \$33,300,595 but this volume of business was handled and planning was carried on for the major expansion schemes with an increase of only \$261,000 in overhead expense at all levels of the Company. For this performance the Board expresses its sincere thanks to all employees.

Report OF THE DIRECTORS TO THE SHAREHOLDERS

It is recognized that in order to sell the goods to be produced from our expanded operations even more emphasis will have to be laid on marketing than in the past. In view of this, it seems an appropriate time to review our marketing methods and problems generally and these are highlighted elsewhere in this Annual Report.

Corporate Name It has been recognized for several years that Dominion Tar & Chemical Company, Limited is no longer a suitable name for your Company. Chemical sales are less than 20% of the total sales of the Company and tar sales are but a portion of these chemical sales.

We have referred above to the re-arrangement three years ago of operations into a series of subsidiaries each bearing a DOMTAR name. In view of the success of this program, and the unsuitability of the present name, your Directors will recommend at a Special General Meeting in April that the name of your Company be changed to "DOMTAR Limited".

Executive Committee It is with great regret that we report the death of Colonel W. E. Phillips, C.B.E., D.S.O., M.C., LL.D., who joined your Board of Directors on July 20, 1948 and your Executive Committee on November 2, 1949. He participated actively in the affairs of the Company and his valuable advice and support will be greatly missed.

Board of Directors Mr. H. R. MacMillan, C.B.E., D.Sc., LL.D., was elected to the Board of your Company on April 1, 1935, several years earlier than anyone else now serving. During the year he tendered his resignation which was accepted with great regret.

In January 1965, Mr. T. N. Beaupré and Mr. Roger Létourneau, Q.C., LL.D., were appointed by the Directors to fill the vacancies on the Board.

On behalf of the Board

E. P. TAYLOR
Chairman

W. N. HALL
President

Montreal, Quebec
January 26, 1965

Consolidated Statement of Profit and Loss and Earned Surplus
for the year ended December 31, 1964

	1964	1963
Sales	\$385,957,920	\$352,657,325
Cost of sales including selling, general and administrative expenses . .	316,986,717	295,254,162
Operating profit before taking into account the undernoted items .	\$ 68,971,203	\$ 57,403,163
Investment and sundry income	2,088,949	1,208,788
	\$ 71,060,152	\$ 58,611,951
Interest on funded debt	\$ 6,458,621	\$ 5,875,970
Depreciation and depletion	20,500,000	19,750,000
Income taxes — current — Notes 1 and 2	11,475,000	10,503,000
Provision for minority interests	1,784,525	1,650,747
	\$ 40,218,146	\$ 37,779,717
Profit before deferred income taxes	\$ 30,842,006	\$ 20,832,234
Provision for deferred income taxes — Note 1	5,878,781	—
Profit for the year — Notes 1 and 2	\$ 24,963,225	\$ 20,832,234
Earned surplus — balance at beginning of year	60,818,262	51,935,788
	\$ 85,781,487	\$ 72,768,022
Discount on issue of debentures	\$ 390,400	\$ —
Dividends on preference shares	300,000	300,000
Dividends on common shares	11,685,469	11,649,760
	\$ 12,375,869	\$ 11,949,760
Earned surplus — balance at end of year	\$ 73,405,618	\$ 60,818,262

Amounts paid by the Company during 1964 in respect of remuneration of executive officers, directors' fees and legal fees aggregated \$1,131,103

Consolidated Balance Sheet

as at December 31, 1964

Assets	1964	1963
CURRENT:		
Cash and short-term investments	\$ 19,668,658	\$ 2,612,295
Accounts receivable	65,828,902	55,278,745
Inventories of finished products, work in process, raw materials and supplies at lower of cost or net realizable value	47,437,694	47,715,838
Pulpwood and advances on woods operations	25,483,398	23,545,104
Prepaid expenses	1,361,308	2,455,035
	<u>\$159,779,960</u>	<u>\$131,607,017</u>
INVESTMENTS AND ADVANCES, at cost:		
Listed securities (quoted value — \$10,163,400)	\$ 13,349,368	\$ 13,349,368
Other investments and advances	8,617,547	7,939,151
	<u>\$ 21,966,915</u>	<u>\$ 21,288,519</u>
FIXED ASSETS — Note 6:		
Land and water power rights, at cost.	\$ 7,259,902	\$ 7,358,230
Buildings, plant, machinery, equipment and timber limits, generally at cost, including in such cost the excess cost of shares of a partly owned subsidiary company over book value of the net assets . . .	457,960,723	432,511,143
	<u>\$465,220,625</u>	<u>\$439,869,373</u>
Less — Accumulated depreciation and depletion.	230,093,701	213,130,177
	<u>\$235,126,924</u>	<u>\$226,739,196</u>
SIGNED ON BEHALF OF THE BOARD:		
E. P. TAYLOR, Director		
W. N. HALL, Director		
	<u>\$416,873,799</u>	<u>\$379,634,732</u>

Liabilities	1964	1963
CURRENT:		
Accounts payable and accrued liabilities	\$ 29,690,812	\$ 26,181,624
Income and other taxes — Notes 1 and 2	7,533,006	5,438,114
Dividends payable	3,290,627	3,287,251
	<u>\$ 40,514,445</u>	<u>\$ 34,906,989</u>
FUNDED DEBT — Note 3	<u>\$120,276,000</u>	<u>\$107,131,000</u>
DEFERRED INCOME TAXES — Note 1	<u>\$ 5,878,781</u>	<u>\$ —</u>
PREFERRED SHARES OF SUBSIDIARY COMPANIES AND OTHER MINORITY INTERESTS — Note 4	<u>\$ 27,861,698</u>	<u>\$ 28,800,352</u>
CAPITAL:		
Capital stock —		
Cumulative redeemable preference shares, each of a par value of \$23.50 with annual dividend of \$1.00 —		
Authorized and issued — 300,000 shares	\$ 7,050,000	\$ 7,050,000
Common shares without nominal or par value —		
Authorized — 20,000,000 shares		
Outstanding — 14,621,715 shares (after issue of 59,515 shares for \$1,282,548 in 1964)	129,816,470	128,533,922
Surplus resulting from restatement of certain fixed assets — Note 5	12,070,787	12,394,207
Earned surplus, per statement attached	73,405,618	60,818,262
	<u>\$222,342,875</u>	<u>\$208,796,391</u>
	<u><u>\$416,873,799</u></u>	<u><u>\$379,634,732</u></u>

Notes to Financial Statements

December 31, 1964

NOTE 1 — INCOME TAXES:

Since 1959, the company has claimed annually, for tax purposes, capital cost allowances exceeding depreciation provided in the accounts and has followed the practice of disclosing in a note to the annual accounts the amounts by which income taxes otherwise payable were reduced. These tax reductions amount to approximately \$3,900,000 for 1964 (\$5,100,000 for 1963) and to a total of approximately \$20,390,000 at December 31, 1964.

When filing the 1963 income tax returns capital cost allowances were claimed in a greater amount than had been intended when the annual accounts for 1963 were issued to the shareholders; the resulting further reduction of \$920,000 in income taxes otherwise payable in respect of that year is included in "Income and other taxes" in the accompanying balance sheet as a provision against pending tax assessments and those referred to in Note 2.

The Federal and Provincial governments recently instituted tax incentive legislation which permits accelerated capital cost allowances to be claimed under certain conditions. With effect from January 1, 1964 the companies, which are taking advantage of this new legislation, have provided for deferred income taxes on the excess of available accelerated capital cost allowances over the established normal capital cost allowances. The amount so provided, \$5,878,781, has been shown in the attached balance sheet in the caption "Deferred Income Taxes".

NOTE 2 — INCOME TAX ASSESSMENTS:

The company and certain subsidiaries have filed Notices of Objection in respect of the following income tax assessments:

- (a) Assessments received in 1961 for the years 1959 and 1960. The principal item in dispute (involving \$4,225,000 plus interest) arises out of the reallocation by the tax authorities of the purchase considerations for the depreciable assets acquired from Gypsum, Lime and Alabastine, Canada, Limited, which reallocation disregards the terms of the contract.
- (b) Assessments received in 1964 for the years 1962 and 1963. The items in dispute (involving \$3,100,000 plus interest) arise out of the disallowance by the tax authorities of capital cost allowances claimed following the sale of certain assets.

In the opinion of Tax Counsel the companies' arguments should be successful.

NOTE 3 — FUNDED DEBT:

Dominion Tar & Chemical Company, Limited—	
3½% First mortgage sinking fund bonds, Series "B" maturing August 1, 1970	\$ 1,800,000
5% Sinking fund debentures, Series "A", due June 1, 1965	1,000,000
5¼% Sinking fund debentures, Series "A", due June 1, 1978	21,500,000
6¼% Sinking fund debentures, Series "B", due May 1, 1980	12,975,000
5% Debentures, Series "C", due serially April 1, 1965 to 1969	3,750,000
5½% Debentures, Series "C", due April 1, 1982	15,500,000
5¾% Debentures, Series "D", due serially April 1, 1966 to 1970	4,000,000
5¾% Debentures, Series "D", due April 1, 1984	16,000,000
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	\$ 76,525,000
Less — Held for sinking fund	252,000
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	\$ 76,273,000
Howard Smith Paper Mills, Limited —	
3% First mortgage bonds, 1950 Series, due December 1, 1965-1970	\$ 3,600,000
St. Lawrence Corporation Limited —	
First mortgage sinking fund bonds —	
5% Series "A", due April 15, 1972	\$ 12,210,000
4¾% Series "B", due April 15, 1972 (payable in U.S. funds)	4,440,000
5% Series "C", due May 1, 1978	10,292,000
Sinking fund debentures (secured) —	
6¾% Series "A", due June 15, 1980	14,600,000
Hinde and Dauch Limited —	
3½% Serial debentures (secured), due November 1, 1965	600,000
	<hr/>
	\$ 42,142,000
Less — Held for sinking fund	1,739,000
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	\$ 40,403,000
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	\$120,276,000

An amount of \$4,471,000 is required for retirement of funded debt in 1965 (after deducting bonds and debentures held for sinking fund).

Notes to Financial Statements

NOTE 4 — PREFERRED SHARES OF SUBSIDIARY COMPANIES AND OTHER MINORITY INTERESTS:

Howard Smith Paper Mills, Limited —	
160,000 \$2 preferred shares of \$50 each . . .	\$ 8,000,000
St. Lawrence Corporation Limited —	
132,875 5% preferred shares of \$100 each . . .	13,287,500
Interest of minority holders of common shares	
in subsidiary companies	6,574,198
	<u>\$ 27,861,698</u>

NOTE 5 — SURPLUS RESULTING FROM RESTATEMENT OF CERTAIN FIXED ASSETS:

Excess of restated depreciated value over de-	
preciated book value of certain fixed assets	
(unchanged during year)	\$ 15,141,969
Net excess (after increase of \$323,420 during	
1964) of consideration for acquisition of	
shares of subsidiaries over book value of net	
assets	3,071,182
	<u>\$ 12,070,787</u>

NOTE 6 — CAPITAL EXPANSION PROGRAM:

The company has approved a capital expansion program, principally relating to pulp and paper facilities, which is expected to involve expenditures approximating \$84,000,000 over the next two years.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Dominion Tar & Chemical Company, Limited and subsidiary companies as at December 31, 1964 and the consolidated statement of profit and loss and earned surplus for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and the related consolidated statement of profit and loss and earned surplus, with the notes thereto, are properly drawn up so as to exhibit a true and correct view of the state of the combined affairs of Dominion Tar & Chemical Company, Limited and subsidiary companies as at December 31, 1964 and the results of their combined operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the change (which we approve) in the method of accounting for deferred income taxes as explained in Note 1.

PRICE WATERHOUSE & Co.
Chartered Accountants.

January 26, 1965.

Source and Application of Funds and Working Capital

For the year ended December 31, 1964

SOURCE OF FUNDS:

Profit for the year		\$ 24,963,225
Non-cash expenses deducted in determining profit for the year		
— depreciation and depletion	\$ 20,500,000	
— deferred income taxes	5,878,781	26,378,781
		<hr/>
CASH FLOW		\$ 51,342,006
Proceeds from issuance of:		
— common shares	\$ 1,282,548	
— series "D" debentures less discount of \$390,400	19,609,600	20,892,148
		<hr/>
		\$ 72,234,154
		<hr/>

APPLICATION OF FUNDS:

Net addition to properties	\$ 28,887,728
Investments	678,396
Redemption of funded debt	6,855,000
Reduction in minority interests in St. Lawrence Corporation Limited and Hinde and Dauch Limited	938,654
Dividends on preference shares	300,000
Dividends on common shares	11,685,469
Other	323,420
	<hr/>
	\$ 49,668,667
Increase in Working Capital	22,565,487
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	\$ 72,234,154
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WORKING CAPITAL:

Balance at beginning of year	\$ 96,700,028
Increase during year	22,565,487
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Balance at end of year	\$119,265,515
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Major Expansion in Pulp and Paper

Last year DOMTAR announced a major expansion in pulp and paper making facilities. The program includes a new 850-ton per day kraft pulp mill to be located at Lac Quévillon, Que., a new fine paper machine at Cornwall, Ont., and modernization of kraft pulp producing facilities at Windsor, Que. The containerboard and newsprint mill at Red Rock, Ont., is being expanded to increase capacity and a new "Alkafide" pulping unit of original DOMTAR design is being installed.

Lac Quévillon Mill

The kraft pulp mill at Lac Quévillon, Que., has been designed to incorporate the latest manufacturing techniques, enabling production of top quality bleached kraft pulp. Site clearance started in late 1964 and it is anticipated the mill will be in operation by early 1967.

The mill will employ about 300 people while the harvesting of the wood supply will require over 1,200 men.

Kraft pulp from this installation will be used by the mills of the Company and its subsidiaries in Canada and the United Kingdom and in the mill of our affiliate company in Italy. The surplus will be sold on the open market in the United States and Europe.

Cornwall Mill

The expansion at the Cornwall, Ont., mill is centred around the installation of a seventh fine paper machine with an annual capacity of 69,000 tons. The project also involves expansion of the paper-finishing and shipping department and the stock preparation system. The new machine will be operational by early 1966.



Windsor Mill

The modernization program at Windsor, Que., includes the replacement of the present bleach plant with a five-stage bleach system increasing daily capacity from 125 to 400 tons of kraft pulp. Modifications are being made to the pulp dryer to increase the capacity of this equipment from 70 to 250 tons per day. A new wood yard and wood room for storage and handling of wood chips are also being installed.

Red Rock Mill

The expansion program at Red Rock will increase annual containerboard capacity by 60,000 tons and will provide facilities for the manufacture of multiwall sack and bag paper. The project includes construction of a 150-ton per day pulping unit of original design which combines two new concepts in pulp processing. These consist of a continuous vapor phase rapid cooking system and a high sulphidity cooking process called "Alka-fide," a development of DOMTAR's Research Department.



DOMTAR Chemicals Limited

Consolidation of plants, technological improvements and close control of costs combined with a healthy business climate and special efforts in the areas of marketing and distribution produced substantial gains in sales and profits in 1964. All divisions contributed to the improvement.

Diversification — of markets and products, of marketing knowledge and manufacturing skills — perhaps best describes the activities of DOMTAR Chemicals Limited.

"Sifto" Salt – An Example

Consider just one of our products, salt. We obtain our salt from such unusual places as 1,700 feet under the waters of Lake Huron, 1,000 feet under the Tantramar marshes of Nova Scotia and 3,000 feet below Saskatchewan's wheat fields. "Sifto" salt can be found in millions of Canadian homes, a chemical plant in Quebec, a salt spreader on the Trans-Canada Highway, a fishing vessel on the Grand Banks, a mine in Northern Manitoba and in ships bound for Africa.

Competition Increasing

Salt being a common commodity, we must be ready to face intense competition from both domestic and foreign producers. Mediterranean solar salt invades the Eastern Seaboard; increasing pressure from mines and plants in the United States is prevalent around the Great Lakes area and in sections of the prairies; while low cost solar salt from California and Mexico reaches West Coast ports.

This competitive marketing environment places ever-growing emphasis on our selling and distribution skills. Our national field sales organization is tailored to meet specific customer requirements. It comprises professional engineers, field merchandisers, specialists in a variety of industries and agents in foreign countries. Sales headquarters are located at Montreal, Que., and district sales offices at Amherst, N.S., Toronto, Ont., and Calgary, Alta. This organization, supported by the technical competence of the research and production departments, ensures continued growth in this exciting industry.

Pattern is Repeated

This pattern repeats itself in most other segments of our chemical operations. The oldest member of this group, the Tar and Chemical Division, is the only major manufacturer of coal tar products in Canada. It faces the ever-present pressure of import competition and at the same time it must develop and expand export markets.

The high level of activity in the consuming industries, aluminum, construction and chemicals, raised the demand for all products. This resulted in a significant increase in sales while profit was more in line with the return to be expected from the heavy capital expenditures made in recent years.

Able to Compete

The phthalic anhydride plant operated at capacity throughout the year. Studies on technical improvements were completed and expansion without major capital investment will proceed in 1965. The increased capacity, in excess of 30 million lbs. per year, will give lower costs and strengthen our ability to compete in a market where prices remain depressed.

Changing markets create new distribution problems for many of our products. A good example is lime and limestone. Decreases in demand are evident in

sifto
COOK PURE

When you use sifto you get the extra...
P.S. Extra in sifto's extra...

sifto
ICE SALT

PLAY SAFE
NOW! NOW! NOW!... Unless you know when it'll snow!
...DES MAINTENANT!

INDUSTRIAL POLE TYPE BUILDINGS

Buildings like this
are less than
\$2.00 a sq. ft.

CCC PRESSURE TREATED POLES AND LUMBER
DOMTAR CHEMICALS LIMITED

PROTOL
the fire retardant
treatment
for wood

DOMTAR

sifto
80%+ WATER
REDUCERS
D'EAU

sifto
100% sifto

EMULSION DE POIX DOMTAR

...L'EMULSION DE POIX DOMTAR...
...DES MAINTENANT!

BULLETIN D'EMULSION DE POIX

L'émulsion de poix réduit les frais
d'entretien des aérodromes

NUCLEAR POWDER CO.

...NUCLEAR POWDER CO....

UTILITY ECONOMY DURABILITY

**PRESSURE-CROSSTED
WOOD-BLOCK
INDUSTRIAL FLOORING**

Who would have thought
it would last 30 years?

CCC DOMTAR

tygopal

...tygopal...
...tygopal...
...tygopal...
...tygopal...

THE JYCE ENGINE

...THE JYCE ENGINE...
...THE JYCE ENGINE...

L'EMULSION DE POIX DOMTAR

...L'EMULSION DE POIX DOMTAR...
...L'EMULSION DE POIX DOMTAR...

Le SOLPIER

...Le SOLPIER...
...Le SOLPIER...

A RESON DE

...A RESON DE...
...A RESON DE...

**...POLYMER...
...CULTIVATION...**

...POLYMER...
...CULTIVATION...

tygopal

...tygopal...
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...tygopal...
...tygopal...

GENACITE
YES FOR ORLON

...GENACITE...
...YES FOR ORLON...

CARBOXEL

...CARBOXEL...
...CARBOXEL...

filament, fibre or fabric...

...filament, fibre or fabric...
...filament, fibre or fabric...

**Information Bulletin
on
Line Stabilization**

...Information Bulletin...
...on Line Stabilization...

POLYVINYLBUTADIENE

...POLYVINYLBUTADIENE...
...POLYVINYLBUTADIENE...

**Bulletin d'Information
relatif à l'utilisation de
la chaux
stabilisation du sol**

...Bulletin d'Information...
...relatif à l'utilisation de la chaux...

the building industry, uranium mines and for some chemical uses. Kraft pulp mills are installing or expanding lime recovery units and glass manufacturers have substituted limestone for lime.

Find New Markets for Lime

However, there are growth areas which in the long run could more than compensate for the markets that have been declining. The greatest potential is in the steel industry where the basic oxygen process is rapidly replacing or supplementing the existing processes. Significant gains are also forecast from the increasing use of lime for soil stabilization, asphalt paving, sand-lime brick production and sewage and water treatment.

Our limestone quarries and lime plants are well located. Regional sales and service offices and laboratories are staffed with highly qualified experienced personnel. Our many strengths make us optimistic about the future of this industry.

Expect Increase for Creosoting

Changes in markets are also occurring in the Canada Creosoting Division which has 10 plants located from coast to coast and specializes in wood preservation.

In recent years, the treatment of ties, bridge timbers and poles for the major Canadian railways showed a declining trend. Some reversal became evident this year and a gradually rising demand is now expected. Efforts to raise volume and participation in pressure treated products including poles, marine piling, lumber and fence posts are bearing fruit.

National distribution of treated wood products is accomplished through five regional sales offices located at Truro, N.S., Montreal, Que., Toronto, Ont., Calgary, Alta., and Vancouver, B.C. Each sales office is headed by a Regional Sales Manager who directs a staff of sales engineers and technicians.

Organic Chemicals and Dyestuffs

Chemical Developments of Canada Limited supplies organic chemicals, dyestuffs and specialties to a wide range of industries and through its technically trained sales force and laboratories provides a comprehensive service to its customers by developing and demonstrating new techniques and applications.

A new continuous sulphonation plant was in operation at year's end. It will produce a series of detergent raw materials, some not previously available in Canada. The broadening of the product line by means of this new facility will add further potential to the steady growth of this division.

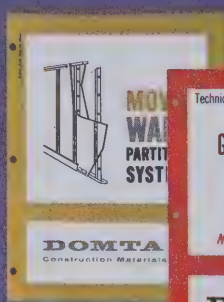
Metal Powders Expands Rapidly

Despite a fire which completely destroyed our Iberville, Que., plant in February, 1964, the Metal Powders Division ended the year in a greatly improved position to serve its markets. The new LaSalle, Que., plant, under construction at the time of the fire, was rapidly expanded and within five months the lost capacity was regained. We enter 1965 as a major supplier of iron powders to the welding rod industry in North America. Research and development progress in improving grades designed for powder metallurgy is promising. We also supply stainless steel and high-nickel alloy powders and miscellaneous products for cutting and scarfing metals and for feeds and pharmaceuticals.

Montreal sales headquarters handles domestic and United States business. Agency arrangements have been established in Australia, Japan, Brazil and Chile.

The Canadian market for metal powders is expanding and exports are now playing an important part in the affairs of this division.

A. MONSAROFF
Vice-President and Managing Director



Choisir les briques de la maçonnerie d'une maison est un acte aussi capital que le choix d'un épouse. Enfin, pourquoi ? En tout cas, c'est un choix que l'on ne fait qu'une fois pour toutes (en principe). La brique de terre cuite de Cookville-Laprairie se présente sous des dehors de textures et de formes d'une extrême variété (blonde, rouge, brulée).

ATTRAYANTE — DURABLE — ABSOLUMENT AUCUNS FRAIS D'ENTRETIEN

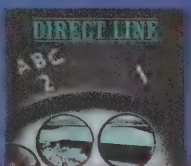
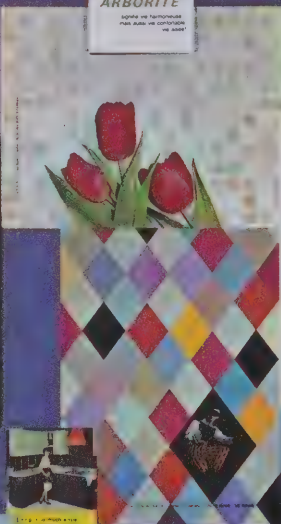
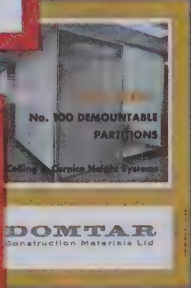
La brique Cookville-Laprairie coûte peut-être un peu plus — qu'une brique — mais quelle avantage ?

DOMTAR
Construction Materials Ltd.

Choosing your brick is almost as important as choosing a wife. You only do it once. So they say. Cookville-Laprairie burned clay brick comes in a wide variety of textures and colours (blonde, redheads and brunettes).

BEAUTIFUL — DURABLE — ABSOLUTELY MAINTENANCE-FREE

Cookville-Laprairie brick may cost a little more but it's well worth your money — nothing compared with the benefits.

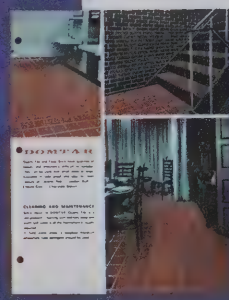
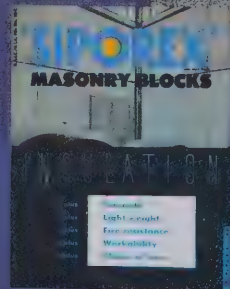
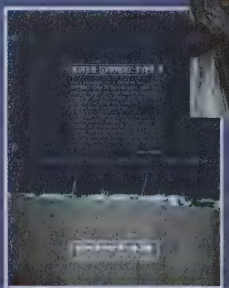
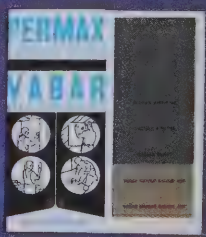
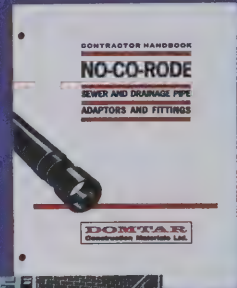
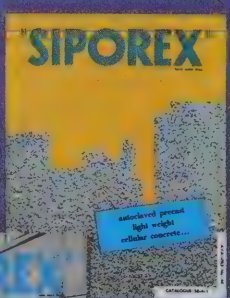


when they look for quality roofing, they look for Domtar Asphalt Shingles.

Why?

- 1) Superior appearance.
- 2) Wide color range.
- 3) Water resistant.
- 4) Fire resistant.
- 5) Maintenance free.

Merits: Shurfond and Domtar Asphalt Shingles.



DOMTAR Construction Materials Ltd.

All segments of the building construction market were more active in 1964 and our increase of 10.7% in sales reflected these conditions. The stronger demand accompanied by favourable product mix, manufacturing efficiencies and expense control resulted in a significant improvement in profit.

Our marketing groups are organized along product lines. Brick and tile, asphalt roofing, fibre pipe, fibreboard and gypsum products form one group while three other separate sales forces handle “Arborite” plastic laminates, “McFadden” white pine lumber, and “Siporex” cellular light weight concrete and “Haydite” expanded shale aggregate.

A total of 27 plants are involved in the production of these materials and most products enjoy country-wide distribution.

Clay, Fibre and Gypsum Products

The demand for brick, shingles, fibre pipe, fibreboard and gypsum products is closely related to the number of housing starts. The residential market was particularly buoyant being stimulated by the Federal Government bonus for winter construction and, late in the year, by the increase in sales tax effective January 1, 1965. Although the number of residential starts was the highest on record, the major increase again occurred in apartment units where the use of these products is not as great as it is in the case of single dwellings.

The nature and character of the construction materials market is undergoing a major change as the population becomes more urbanized and the family income increases. The trend in housing materials, design, style and colour is towards an overall concept rather than the individual or specific product. Materials providing improved sound abatement, fire rating and low maintenance qualities are receiving preference. Under these conditions, the marketing technique takes on particular significance.

Our sales organization with its breadth of product line is in a favourable position to capitalize on this trend. Intensive consumer and trade advertising supported by broad field sales coverage by competent personnel are successfully promoting the advantages of selectively matching our products for maximum colour harmony and aesthetic appeal.

In order that specific customer needs can be met, flexible and varied marketing policies have been followed to meet local requirements. The building supply dealer is still a major factor in our distributive channel although direct sales to applicators, particularly in the urban areas, are becoming more prevalent.

"Arborite"
Plastic Laminates

This division operates two plants in Canada and a third in the United Kingdom. Aggressive sales efforts backed up by strong consumer and trade advertising programs brought about a further increase in sales of this quality product. Sales are made through a limited number of distributors in Canada and a particularly encouraging increase in export business has developed.

"McFadden"
White Pine

The capital expenditure program providing increased capacity and year-round operations made possible a very substantial increase in 1964 sales. Distribution in eastern Canada is channelled through distributors while deliveries to export customers, comprising a significant portion of the mill's output, are arranged by agents.

"Siporex"

This division maintains a strong architectural marketing organization, due to the technical nature of "Siporex", undertakes erection of this light weight material to ensure proper application. Severe price pressures from competitive materials were experienced throughout the year with no indication of abatement in sight.

Conclusion

Quality products supported by a broad field sales force with positive consumer and trade advertising are essential for successful participation in the building materials market.

DOMTAR Construction Materials possesses these fundamentals and we look forward to continued growth in the years ahead.

J. COCHRAN
Vice-President and Managing Director

DOMTAR Consumer Products Ltd.

New records in sales and earnings in 1964 confirm the quality and convenience of our growing line of nationally known products — the familiar “Javex” liquid and powdered bleaches, “Fleecy” fabric softener, “Gay” liquid detergent, “Glide” liquid laundry starch, “Glide” spray starch, “Flusho” bowl cleaner, “Sinko” drain cleaner and “Corona” lye.

Through regular in-store promotion programs and extensive advertising by television, radio and newspapers, our products have become household names throughout Canada, in the Caribbean and as far afield as British Guiana, Malaysia and New Zealand. Consistent and effective marketing techniques have established a market franchise in many areas.

■

Regardless of where these products appear in foreign lands or in familiar stores in Canada, sales representatives must have been there first. These representatives provide the all-important link between DOMTAR and the supermarkets, wholesale grocers and retail distributors. The ultimate success of the Company depends on how well these men do their work and on the innate skill and resourcefulness which they bring to the selling job.

Wide Knowledge To each distributor, the salesman is the direct source of information about the company's brands, its policies and its character. To the company, he is an important source of information concerning changing conditions, competitive activity and other trends which might affect the company's business and future plans.

However, our salesman's main responsibility is to develop the sale of the company's products in his assigned territory and to assure the continuous flow of these products from our plants into retail outlets. To do this, he must possess the necessary sales skills and know the company and its products thoroughly to have



a clear understanding of the needs and problems of his customers and be aware of the importance of the selling and merchandising function.

Flexible Approach A sales district with its diverse consumer preferences, varied economic conditions and other special circumstances must be thoroughly familiar to the salesman. Every customer differs not only in his personal characteristics but also in his business methods. Our salesmen must be able to give customers personal attention and tailored merchandising services to help them sell more of our products.

The retail and wholesale distribution of the thousands of products and sizes sold in grocery stores is a highly developed business, managed by marketing specialists in mass distribution and merchandising.

In some cases our salesman may be a merchandising advisor helping a customer lay out an advertisement for special promotion or planning special store displays and arranging for special merchandise to reach his store. Another customer may seek his assistance to examine store traffic and determine the most productive shelf location for our products.

Because of the great reliance that must be placed on our salesmen and a traditional policy of promotion within the organization, virtually every member of the DOMTAR Consumer Products sales management group started his career with the company as a salesman. The management group, consisting of sales managers, district managers and supervisors, knows from experience the planning that is needed to meet sales objectives and the training and leadership required to build and maintain an effective sales organization.

R. E. KIRBYSON
Vice-President and Managing Director

Black ink

Colors in all these colors.

Domtar Packaging is the only company in the world that can produce all the colors of the rainbow in its packaging. This is because we use a special process called "Color Transfer" which allows us to transfer the color of any object to any other object. This means we can create packaging that is as colorful as the product it is packaging.

CARTON SPECIALTIES
A Division of Domtar Packaging Limited
Headquarters in Scarborough

Primer pour le sol

It can take pictures your entire product.

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CARTON SPECIALTIES
A Division of Domtar Packaging Limited
Headquarters in Scarborough

The inside story

Isolated your entire aspect

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CARTON SPECIALTIES
A Division of Domtar Packaging Limited
Headquarters in Scarborough

Why meet your market demands?

Domtar just grows with changing markets

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CARTON SPECIALTIES
A Division of Domtar Packaging Limited
Headquarters in Scarborough

Personal made-made meeting?

The best for customers who want

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Domtar Packaging - carrefour des emballages

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A Division of Domtar Packaging Limited
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GLOLOK® A REVOLUTIONARY DEVELOPMENT IN PACKAGING AUTOMATION

UNRIVALLED CARTON STRENGTH WITH MAINTENANCE-FREE OPERATION FOR LOW-COST AUTOMATION

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CARTON SPECIALTIES
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Headquarters in Scarborough

CARTON SPECIALTIES FIBRE CAN PRODUCTS

AUTOMATE YOUR BOX CLOSURE WITHOUT MACHINERY

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CARTON SPECIALTIES
A Division of Domtar Packaging Limited
Headquarters in Scarborough

Better bulk handling and storage in BIN BAG

HOW TO PACK IT WITH CORRUGATED

Domtar Packaging is the only company in the world that can produce all the colors of the rainbow in its packaging. This is because we use a special process called "Color Transfer" which allows us to transfer the color of any object to any other object. This means we can create packaging that is as colorful as the product it is packaging.

CARTON SPECIALTIES
A Division of Domtar Packaging Limited
Headquarters in Scarborough

LES EMBALLAGES DOMTAR

5

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CARTON SPECIALTIES
A Division of Domtar Packaging Limited
Headquarters in Scarborough

THE DOMTAR PACKAGE

3

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CARTON SPECIALTIES
A Division of Domtar Packaging Limited
Headquarters in Scarborough

THE DOMTAR PACKAGE

4

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THE DOMTAR PACKAGE

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LES EMBALLAGES DOMTAR

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CARTON SPECIALTIES
A Division of Domtar Packaging Limited
Headquarters in Scarborough

DOMTAR Packaging Limited

Activities in the packaging field are the responsibility of DOMTAR Packaging Limited. The Company manufactures a wide assortment of products basically related to paper and paperboard but with plastics beginning to play an increasing role.

The Company is organized into three separate divisions, each of which operates in a well defined product range. Combined sales were higher in 1964 and a satisfactory improvement in profits was recorded.

Shipping Cases

The largest unit is the Hinde & Dauch Division which supplies corrugated and solid fibre shipping cases to a great variety of industries including soap and detergents, processed foods, produce, beverage, hardware, furniture, textile and many others.

This division has nine well located box plants which serve the trade from coast to coast. Sales headquarters are at Toronto and regional sales offices are located at Montreal, Toronto and Winnipeg under the direction of Regional Managers. Well trained technical sales personnel are employed capable of coping with customers' packaging and material handling problems. Effective use of promotional sales techniques and advertising along with quality products, new developments and superior service have contributed to the growth of the division.

Paper Bags and Wrappings

The Bell-Kilgour Division is engaged in the manufacture and distribution of numerous lines of merchandise produced from kraft paper. These include a wide range of bags — grocery, notion, shopping and carry-outs — sold to department, chain and variety stores and other retailers. The division also sells tapes, tissue and towelling, wrapping papers and specialty wrappers directly to manufacturers. Warehouse stocks at 16 locations permit participation in the market from the prairies to the Atlantic coast.

A program to eliminate low profit margin items was undertaken in 1964 and as a result total sales were moderately lower but a substantial profit improvement was achieved.

Folding Cartons and Fibre Cans

The Carton Specialties Division which makes folding cartons at Toronto and fibre cans at Prescott and Chatham for the market in central Canada accomplished a satisfactory improvement in sales in 1964. However, profits were adversely affected by the depressed price levels which have prevailed in the folding box field for some time.

Improved earnings are looked for as a result of the introduction of certain packaging systems where the competitive factors will not be capable of causing the same degree of profit deterioration as they do in the conventional folding carton area of the market.

In the fibre can field major segments of the market are just beginning to open up as development work crystallizes into general commercial acceptance. This market is growing and we expect will provide a good return in the years ahead.

We look for continuing development in the number and scope of products and services which DOMTAR Packaging will be offering to the Canadian business community.

W. H. PALM
Vice-President and Managing Director

DOMTAR Pulp & Paper Limited

Sell Products Around the Globe

As the manufacturer of a wide variety of pulp, paper, paperboard and specialty paper grades sold throughout most of the free world, the marketing structure of DOMTAR Pulp & Paper Limited must be tailored to suit the characteristics and demands of these extremely diverse and highly competitive markets. Our marketing policies must be sound and yet flexible enough to service the varied requirements on a profitable basis.

Gains Despite Higher Costs

This was achieved last year and we expect to show further improvement in 1965. Operating profits, after absorbing increased costs for wages, wood and other basic materials, showed an encouraging improvement due to a combination of increased volume, improved productivity and some price increases in fine papers and other products.

Produce Fine Papers

Our fine paper producer, the Howard Smith Division, is responsible for the manufacture and sale of Canada's widest range of fine, writing and printing papers. In addition, the division produces a broad range of specialties such as blueprint paper, cigarette paper, and the bank note paper from which Canadian currency is made.

As the manufacturer, we consider paper to be a finished product. However, the ultimate consumer is more likely to see our papers in the form of writing papers, business and stationery papers, booklets and a host of other common or specialized products that have been converted or processed by others.

The bulk of the fine, writing and printing papers are sold to wholesale paper merchants for resale to their many customers in the printing and graphic arts industries. The remaining tonnage is sold to converters, who manufacture items such as envelopes, school supplies, cups, food containers, blackline and blueprints.

The Howard Smith Division has a highly trained sales force, with offices in the major cities across Canada, to service the requirements of both the merchant and the converter. Additional promotional effort in support of the merchant is directed to all phases of the graphic arts.

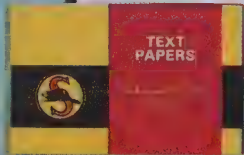
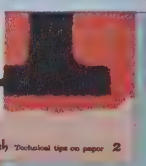
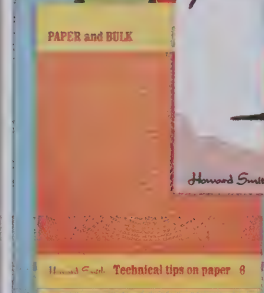
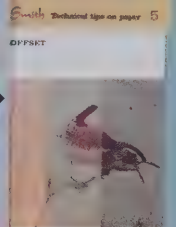
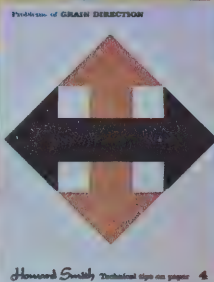
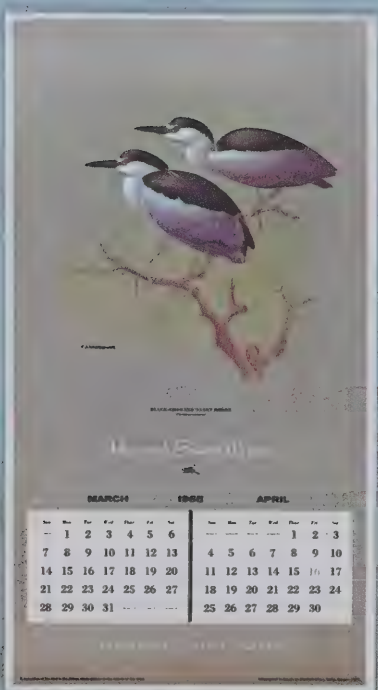
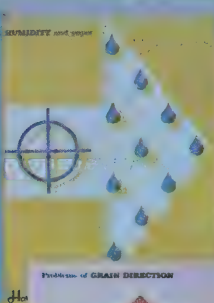
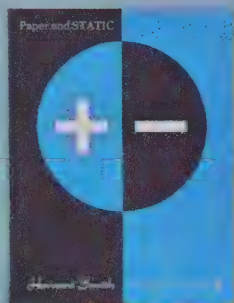
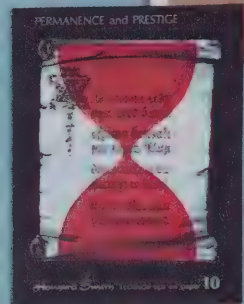
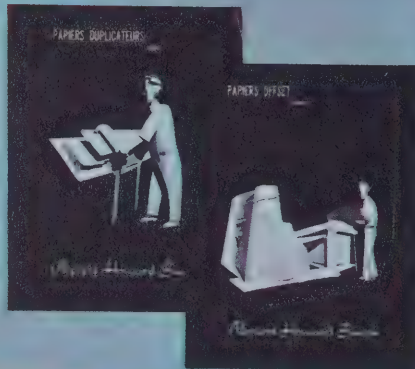
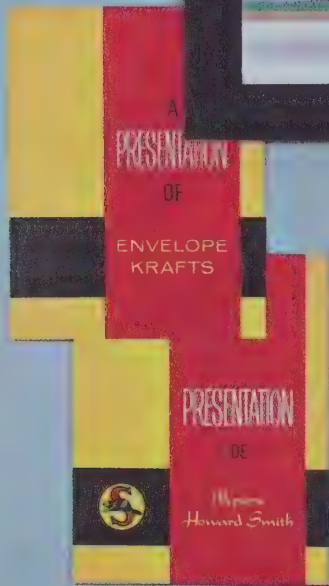
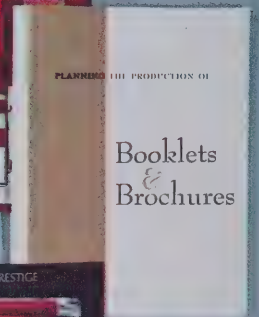
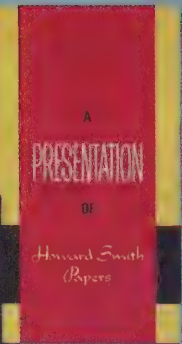
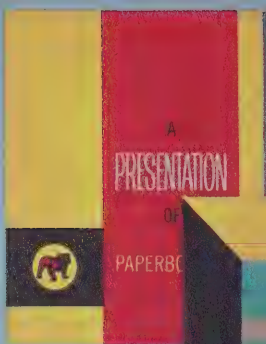
Diversified Markets

Unlike the Howard Smith Division, the Kraft and Boxboard Division manufactures and sells many unrelated products in a broad market, thus creating a complex marketing structure.

In order to service these markets effectively, the sales structure has been divided into three departments — Kraft, Boxboard and Industrial Materials.

The Kraft sales department, with offices in major cities in eastern Canada, is responsible for the marketing of a wide range of kraft base papers that include wrapping paper, bag papers, multiwall sack paper, butcher's papers, extensible paper, envelope papers, industrial paper towels, tag and folder stock. It also sells kraft for gumming, waxing, waterproofing, asphalt laminating, poly-coating, creping, twisting, spinning and many other special industrial applications.

Except for the wrapping paper grades that are sold through distributors, all kraft paper sales are sold directly to the converter who usually orders to his own specifications. Because of the highly specialized nature of the various markets,



the kraft sales representative must have sound production and product knowledge to enable him to evaluate customer requests in terms of available kraft production facilities.

Sells to Converters

The Boxboard sales department, with offices in Montreal and Toronto, directs its efforts to the converter who services the packaging requirements of his customers. With a complete range of folding and non-folding boards, ranging from the high quality clay-coated cylinder board to the lower quality chipboards and screenings, we keep pace with an industry that is constantly changing and searching for new ideas.

The Industrial Materials sales group handles the domestic sales of a line of base stocks for asphalt building and roofing papers that are sold directly to converters as well as a range of industrial cores and mill wrappers that are sold primarily to other paper mills.

During the past year, the market for kraft papers showed very little growth and was strongly competitive. Total sales and our share of the market were unchanged from 1963. However, cost reductions, in spite of increases in labor rates, resulted in a significant increase in operating profit.

The demand for boxboards remained strong throughout the year and sales equalled those of 1963. However, increasingly exacting demands arising out of developments in the converting and packaging industries led to higher costs in the board mills and profit fell off considerably. We are now in the process of preparing a program of mill modifications and improvements to counteract this trend.

Export Sales

The Export department is responsible for the marketing of all fine and kraft paper grades in thirty-five foreign countries. In each foreign country where our products are sold, we have a company appointed agent who deals with the ultimate customer.

The Pulp sales department is responsible for the direct sale of pulps from all producing mills within the Company. It will soon be undergoing a change and expanding in order to cope with the sale of the planned increase in mill production capacity. Our largest market for pulp is in the northern United States, although considerable quantities are shipped to American paper mills in the southern and mid-western states and to Canadian and European mills.

Provide Assistance

In order to assist our sales departments, the advertising department develops sampling and promotional programs to assist sales efforts.

In the role of manufacturer, we must also look into all phases of the graphic arts in order to issue educational and informative material on the basic fundamentals for the novice and on the latest developments for the craftsman.

The company also maintains a highly trained technical staff who provide our pulp and paper customers with specialized services. One of the main functions is to guide our customers in using the proper pulp and paper product which will give the most efficient results. In addition the department carries on studies to improve and develop new products and manufacturing processes.

R. M. COLLINS
Vice-President and Managing Director

DOMTAR Newsprint Limited

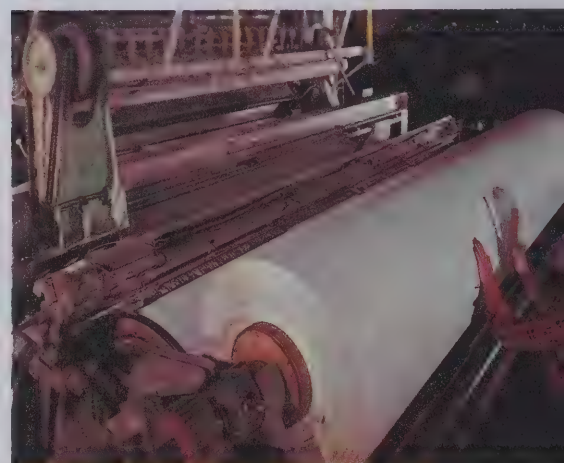
All products — newsprint, containerboard, unbleached sulphite pulp, coated and groundwood printing papers — contributed to the growth in sales and earnings in 1964. Although costs of wages, services and raw materials continued to rise, these higher costs were more than offset by the improvement in the utilization of our plant and equipment.

These results were attained despite outside factors over which we had no control. There were serious work stoppages at customers' plants in both Canada and the United States which use our newsprint and containerboard. In October, the United Kingdom government imposed a 15% surcharge on imports, part of which we have absorbed.

Marketing Subsidiaries

Sales of newsprint in the United States, our largest market, are directed by The Wright Company, Inc., a wholly owned subsidiary located in New York City. As most of these sales are made to large consumers who traditionally contract for their requirements on an annual basis or longer periods of time, direct contact is made by senior management and sales representatives in the north-eastern, mid-western, mid-Atlantic, southern and south-western states. Their efforts are augmented by our technical sales service staff.

Sales of newsprint to the United Kingdom are made in association with a group of Canadian companies through the British International Paper Company. We also participate in joint marketing operations in Mexico, Australia and New Zealand through the Canadian Overseas Paper Company Limited.



In the United Kingdom and Western Europe, sales of containerboard and groundwood specialty papers are handled by Domtar Board & Paper Sales Limited, a subsidiary based in London, England. We sell direct to consumers in the United Kingdom and through agents in Europe.

Export Sales We export newsprint and other products of this company to many countries. Our principal markets are the United States, Canada, the United Kingdom, the Commonwealth countries, South America, Mexico and Western Europe. Sales are made through our own local agents or directly to paper sales companies acting as principals.

Canadian Sales Canadian sales are organized into two districts, one comprising Quebec and the Maritimes, the other Ontario and Western Canada. Each district sales staff has its own sales manager. These men market our newsprint, containerboard and groundwood specialties directly to publishers, converters and other large consumers. These products are also sold to commercial printers and smaller users through paper merchants and distributors.

Approximately 57% of the products manufactured by DOMTAR Newsprint are delivered by railroad, 23% by ship, 11% by truck and the balance by a combination of these methods.

Expansion Program The major expansion program at Red Rock, which is proceeding on schedule and is expected to be completed this fall, will increase our annual linerboard capacity by 60,000 tons.

C. M. FELLOWS
Vice-President and Managing Director

Ten Year Record

Financial

	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955
Sales: Pulp and Paper (Thousands/\$)	240,482	220,273	216,057	207,631	—	—	—	—	—	—
Chemicals	63,909	58,725	55,401	49,601	—	—	—	—	—	—
Construction Materials	81,567	73,659	72,518	68,474	—	—	—	—	—	—
Total	385,958	352,657	343,976	325,706	215,117	219,293	181,377	177,711	79,037	74,413
Operating Profit.....	68,971	57,403	57,944	56,459	34,503	34,965	27,760	27,750	11,711	10,159
Depreciation and Depletion.....	20,500	19,750	19,250	18,500	12,500	12,500	8,150	7,968	2,750	2,400
Income Taxes — Current.....	11,475	10,503	12,039	13,404	7,605	7,150	8,635	8,830	3,650	3,300
Deferred.....	5,879	—	—	—	—	—	—	—	—	—
Profit.....	24,963	20,832	20,717	18,799	10,079	11,231	7,304	6,561	4,915	3,802
Common Shares Outstanding.....	14,621,715	14,562,200	14,562,200	14,322,200	6,805,932	6,782,232	5,000,000	5,000,000	3,758,938	2,823,000
Earnings per Common Share.....	\$1.69	\$1.41	\$1.40	\$1.29	\$1.43	\$1.61	\$1.40	\$1.25	\$1.23	\$1.24
Dividends per Common Share.....	.80	.80	.80	.80	.60	.60	.50	.50	.50	.42½
Working Capital..... (Thousands/\$)	119,266	96,700	96,465	89,246	52,237	38,882	53,683	45,033	13,170	27,253
Cash flow — Total.....	51,342	40,582	39,967	37,299	22,579	23,731	15,454	14,529	7,665	6,202
Per Common Share.....	\$3.49	\$2.77	\$2.72	\$2.58	\$3.27	\$3.45	\$3.03	\$2.85	\$1.96	\$2.09
Capital Expenditures..... (Thousands/\$)	28,888	19,379	26,700	19,010	17,309	29,931	12,798	11,791	7,355	3,153
Properties — Cost.....	465,221	439,869	421,406	392,373	259,399	242,090	180,106	164,208	41,657	34,302
Accumulated Depreciation.....	230,094	213,130	194,843	175,904	111,115	100,037	88,793	79,494	18,271	15,681
Properties (net)	235,127	226,739	226,563	216,469	148,284	142,053	91,313	84,714	23,386	18,621
Funded Debt.....	120,276	107,131	111,100	100,738	56,036	43,469	45,006	32,430	18,127	20,261
Book Value per Common Share.....	\$14.72	\$13.85	\$13.26	\$12.77	\$15.40	\$14.25	\$12.82	\$12.21	\$10.14	\$9.14

Pulp and Paper Production⁽¹⁾

Newsprint..... (Tons)	523,217	489,140	476,531	477,081	490,194	462,330	456,223	534,665	545,809	508,938
Kraft Paper and Board ⁽²⁾	428,705	406,418	415,298	379,321	378,079	378,184	356,728	354,722	374,541	343,765
Fine Papers ⁽²⁾	154,409	129,661	125,116	116,156	111,560	101,580	99,453	93,601	94,956	85,504
Market Pulp.....	182,169	144,134	141,832	152,221	121,416	100,156	116,918	152,886	165,942	168,051
Total.....	1,288,500	1,169,353	1,158,777	1,124,779	1,101,249	1,042,250	1,029,322	1,135,874	1,181,248	1,106,258

(1) Pro-forma 1960 and prior.

(2) Includes production of fine papers by overseas subsidiary. Figures for 1963 and prior years revised to conform to reclassification of certain products.

MAIN PRODUCTS

DOMTAR Chemicals Limited

Pressure treated wood products; limestone, lime and sand; metal powders; "Sifto" salt for home, farm and industry; coal tar products; detergents, dyestuffs and pigments.

DOMTAR Construction Materials Ltd.

"Cooksville-Laprairie" burned clay brick; DOMTAR quarry tile; DOMTAR masonry mortar mixes; "Cornwall" fibre conduit; DOMTAR asphalt shingles, roll roofing and siding; "Donnacona" roofboard, sheathing and panelling; "Donnacona" "Donnacousti" and "Donnasorb" ceiling tiles and grid panels; "No-Co-Rode" sewer and drainage pipe; "Blue Diamond" sand lime brick; DOMTAR moveable and fixed partitions; DOMTAR plasters; "Gyproc" lath, plank and panel board; "Vinyl-Kote" panelling; "Arborite" decorative plastic laminates; "McFadden" pine lumber products; "Siporex" light weight cellular concrete products.

DOMTAR Consumer Products Ltd.

"Javex" liquid bleach; "Javex" heavy duty dry bleach; "Javex" oxygen dry bleach; "Fleecy" fabric softener; "Gay" liquid detergent; "Glide" liquid laundry starch; "Glide" spray starch; "Flusho" toilet bowl cleaner; "Sinko" drain cleaner; "Corona" lye.

DOMTAR Newsprint Limited

Standard, offset, roto and coloured newsprint; groundwood specialty papers; publication grade coated paper; kraft linerboard; semi-chemical corrugating medium; sulphite pulp.

DOMTAR Packaging Limited

Grocery, shopping and specialty paper bags; collapsible storage containers; wrapping paper; gummed tapes; folding cartons; fibre cans and tubes; shipping cases; corrugated and chipboard partitions; corrugated merchandising displays; solid fibre shipping containers.

DOMTAR Pulp & Paper Limited

"Howard Smith" bond, ledger, lightweight and duplicating papers; book and writing papers; litho, offset and text papers; coated papers and boards; bristol, cover, blanks and blotting papers; tag and folder papers; packaging papers; "Bulldog" kraft wrapping and meat wrap papers; envelope, tag and gumming kraft; tissue and paper towelling; cable sheathing; boxboards; felt papers; vanillin; lignin; bleached soda pulp; bleached and unbleached sulphite pulp — glassine and tissue grades; unbleached sulphite pulp — newsprint grade; bleached and unbleached sulphate pulp.

